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Ramon Schwartz, Jr., Speaker of the House

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Legislative Update

Zero-Base Budgeting: Panacea or Paper Monster?

Wednesday morning, April 25 at 9:00 a.m. in the Ways and Means Committee room, there will be a public hearing on H. 2689. This bill, which was originally introduced by 96 House members, would mandate a "zero-based budget" analysis system.

Zero-base budgeting represents one budget innovation which has received attention in recent years as public decision makers have attempted to increase the cost effectiveness of government. It is in contrast to so-called "incremental budgeting" which is characterized by the traditional line-item budget with small increases occurring annually, frequently in proportion to some factor such as inflation, presumably without any comprehensive review.

Theoretically under zero-base budgeting, each agency is forced to justify its own budget annually from a base of zero dollars as though it were just starting to operate for the first time. The zero-base approach requires that each agency systematically evaluate and review all programs and activities (current as well as new). The two basic questions sought to be answered are:

- 1) Are the current activities efficient and effective? and
- 2) Should current activities be eliminated or reduced to fund higher priority new programs or to reduce the current budget?

In practice, zero-base budgeting rarely asks for such detail. Practical considerations such as the cost of handling the volume of data, expending the time of agency managers at the expense of other duties, and the redundancy of repeating the process each year argue for something less than the pure theoretical construct.

In Section 158 of the 1981-82 General Appropriation Act, the General Assembly directed the Budget and Control Board to "require each State agency, department and institution to submit a detailed analysis by budget classification of the funds required for both its recurring expenses and anticipated additional expenses." Additionally, it required that the State Auditor submit a report to the General Assembly describing the then current budget process and outlining budget activities necessary for compliance with this section.

On December 1, 1981, the State Auditor submitted the required report and made certain recommendations supporting serious consideration to the adoption of a modified zero-base budgeting program. In describing that option the report stated:

Every year one-fifth of all the programs offered by state agencies would be subjected to a zero-base assessment and evaluation by the appropriate legislative committees. The existence of the program and all expenditures would be justified from base zero. The legislature would then make a decision as to whether the program should be authorized to exist for the next five years. Annual funding levels for the program would be developed in the normal budgeting process.

While pointing out the possibilities for the adoption of some form of zero-base budgeting, the State Auditor discussed two general criticisms which need to be kept in mind. The State Auditor wrote:

First, perhaps due to the overzealous salesmanship of the advocates of Zero-Base Budgeting, several criticisms revolve around the fact that the zero-base process did not miraculously produce the obvious, rational, "right" decisions. It still left decision makers with the necessity to exercise their judgment over matters of overall priorities and selection of good proposals from some agencies versus good proposals from others. This criticism overlooks the fact that all resource allocation decisions, regardless of the budgeting process used, are matters of judgment. The budgeting process will never provide the budget decisions. Rather the process can only be expected to collect, analyze, and array information in a manner which assists the final decision makers as they exercise their judgment. These critics have confused the process with the product.

Second, perhaps due to claims that the zero-base process will produce a reallocation of resources from lower priority to higher priority programs, several criticisms concern the fact that such reallocations did not occur on a large scale. Further, these critiques rapidly devolve into criticisms not of Zero-Base Budgeting but rather of the inability for rapid change in a political system that has reached its current state through compromises which have occurred over a long period of time. This is not a criticism of a budgeting process but of our political process, in which any advocate of rapid change is soon slowed by the inertia of history. Rather than being a negative aspect, such a deliberative process (under normal circumstances) guards against rushing to the extremes wherein the good as well as the bad of the present may be discarded for the unproven future. To this extent, incremental decision making may be a positive governor for non-incremental (ZBB) budgeting.

In other developments relative to the budget process in South Carolina, the Reorganization Commission is in the process of conducting its own comprehensive study. That report may be out as early as late spring or early summer.

Proposed FY 85 Federal Budget: Its Impact on the South

Summary

The lengthy and often complicated process of preparing the federal budget is underway. While the Administration has proposed a budget with an overall increase of 8.4 percent, a number of programs have suggested budget reductions. This Research Report will briefly outline the effect the proposed budget would have on the South. [Material for this Report is taken from the latest issue of Southern View, published by the Washington Office of Southern State's Organizations.]

General Budget Overview

The proposed Administration budget for FY 85 is \$926 billion, \$72 billion more than FY 84. Largest increases would be in defense (up 14.5 percent), and Medicare and Social Security (together up 8.4 percent). There would also be an increase in funds paying interest on the national debt.

An increase of 3.5 percent for Federal Grants in Aid to State and Local Governments is included in the package. The amount of such funds going to the South increased from \$29.3 billion in FY 83 to \$30.5 billion in FY 84. The per capita amount of these payments to the South is only 86.5 percent of the national average (\$377 compared to \$436 for FY 84.)

The amount and percentage of federal funds for the South is a budget issue. The region has 37 percent of total population. Perhaps more importantly, the South has 45.6 percent of the nation's poor. Both factors need to be kept in mind when domestic federal spending is reviewed.

Specific Program Areas

1. Community and Economic Development; Transportation

No changes in funding levels for Community Development Block Grant and Urban Development Block Grant programs are proposed--meaning \$3.4 billion for CDBG and \$440 million for UDBG. However, the South's proportion has declined in recent years. It was down 10 percent between FY 83 and FY 84, a total loss of over \$328 million for the region.

The administration has again recommended elimination of the Appalachian Regional Commission, which would have a direct impact on South Carolina. However, as Southern View comments, "Congress appears no more likely to go along with the dismantling this year than in the past." (p. 3)

An increase of \$655 million is recommended for the Federal Aid Highway program. Proposed increases in Interstate construction and transfer funds would bring \$48 million to South Carolina.

2. Employment and Training

The Jobs Training Partnership Act (JTPA) which replaced the CETA program, is recommended for funding at the FY 84 level: \$1.89 billion for training disadvantaged youths and adults; \$233 million for dislocated worker programs; and \$724 million for Summer Youth programs. Eliminated under the proposed budget would be: Work Incentive Program (\$271 million) which gives job training to recipients of Aid to Families with Dependent Children.

FY 85 JTPA PROPOSED FUNDING LEVELS (\$1,000's)

STATE	TITLE II-A Adult & Youth Jobs	TITLE II-B Summer Youth Jobs	TITLE III Dislocated Workers
Alabama	45,825	17,194	4,079
Arkansas	18,577	6,978	1,341
Florida	68,170	25,603	5,521
Georgia	36,746	13,807	2,602
Louisiana	38,049	14,285	3,088
Mississippi	24,344	9,143	1,933
North Carolina	44,865	16,846	3,651
SOUTH CAROLINA	28,098	10,548	2,316
Tennessee	44,042	16,530	3,806
Virginia	32,364	12,157	2,396
West Virginia	21,485	8,060	2,241

3. Education

Increases are proposed for Chapter II programs for state block grants (\$686 million) and programs for research, development and model programs (\$43 million). Chapter I is the largest federal education program; it supplements services to educationally disadvantaged children. Funding would remain at the FY 84 level of \$3.48 billion. The South will receive around 39.2 percent of the Chapter I money, and 36.5 percent of the Chapter II funds. Vocational education programs would be funded at a level \$738 million, of which 39.6 percent is expected to go to the South.

FY 85 EDUCATION PROGRAMS PROPOSED FUNDING
(\$1,000's)

STATE	Vocational Education	ECIA Chapter I	ECIA Chapter II Block Grants
Alabama	14,855	66,495	11,831
Arkansas	8,443	41,941	6,770
Florida	30,591	131,869	25,078
Georgia	20,014	86,033	16,948
Louisiana	14,705	81,844	13,249
Mississippi	9,967	62,136	8,201
North Carolina	22,031	81,194	17,130
SOUTH CAROLINA	12,329	49,011	9,616
Tennessee	17,210	69,946	13,275
Virginia	17,427	61,770	15,541
West Virginia	6,998	28,134	5,677

4. Housing and Energy

The Administration's proposed budget reflects its shift away from federal emphasis on low-income housing construction. The recommended level for subsidized housing is \$6.3 billion, \$3.1 billion less than last year.

Rural loan assistance programs operated by the Farmers' Home Administration would be cut from \$3.4 billion in FY 84 to \$2.3 billion in FY 85 and eventually eliminated completely.

Two energy programs of particular importance to the South are the Weatherization program and the Low Income Home Energy Assistance Program (LIHEAP). The first helps reduce energy use by providing insulation, weather-stripping, and other features to make homes more energy efficient. LIHEAP provides low-income families with assistance in paying high energy bills. Like most states in the region South Carolina is almost totally dependent upon federal funds to operate these programs.

While the South has almost half of families living in poverty (45.6 percent) it receives only one-fifth of federal funds for Weatherization and LIHEAP. The major reason for this is that funding is based largely on cold weather in a region--not the ability of people to pay their energy bills.

FY 85 WEATHERIZATION / LIHEAP FUNDING
(Weatherization in actual funds; LIHEAP in \$1,000's)

STATE	Weatherization	LIHEAP
Alabama	1,682,566	16,015
Arkansas	1,636,566	12,273
Florida	613,084	25,445
Georgia	1,862,396	20,122
Louisiana	801,249	16,401
Mississippi	1,117,996	13,775
North Carolina	3,168,816	35,465
SOUTH CAROLINA	1,050,754	12,774
Tennessee	3,287,824	25,928
Virginia	2,992,059	36,606
West Virginia	2,620,703	16,939

5. Income Maintenance

The proposed budget reduces costs in the Aid to Families with Dependent Children (AFDC) program—an estimated \$600 million savings. The suggested amount is \$6 billion. Federal savings, however, may result in higher state costs, as job search and work programs and new methods of calculating a family's income would be mandated, and would be administered by states. On the other hand, Congress has not approved these proposals in the past and is not expected to adopt them for FY 1985.

Food Stamp expenditures would be reduced from \$10.5 billion to \$9.8 billion. In addition all able-bodied recipients of Food Stamps and AFDC would have to register and participate in a job search program. States would be required to operate this effort. States would also be held liable for erroneous benefit payments over 3 percent of total food stamp distribution. The current rate is 5 percent.

Southern View notes the impact such changes would have:

Any changes in the food stamp program would significantly affect Southern states because the poor in the South are more dependent on food stamps than in other regions. In the South, with 45.6 of all U.S. families in poverty (as compared to 36.9 percent of the country's total population) 10.4 percent of the population participates in the food stamp program. The average among all states is 9 percent. Food stamps also represent a significant percent (52.9) of the combined food stamp/AFDC benefit when compared to a national median of 31 percent of the combined benefits.
(p. 8)

6. Nutrition

The Supplemental Food Programs for Women, Infants and Children (WIC) and Commodity Supplemental Food Program would be reduced by \$22 million and funded at \$1.29 billion in FY 85. According to the Congressional Budget Office this amount would be \$200 million below the amount needed to maintain current service levels. Southern states will receive approximately 43.3 percent of these funds.

Child nutrition programs would receive an increase to \$3.6 billion. The money would be used for cash payments to states for meals to children in schools, child care facilities and other institutions. The South will receive 47.3 percent of the FY 1985 school lunch and special assistance programs.

7. Health Care

Medicaid is a joint state-federal program which provides medical and long-term care to low-income residents. The Administration's budget would reduce federal expenditures by \$1.1 billion compared to expected expenditures. The major portion of the plan is a permanent 3 percent reduction in payments to states. However, this reduction could be earned back if states keep their expenditures below target figures set at 1981 as a base year.

Medicare is a federally-funded and administered health insurance program for the elderly. The budget includes proposed legislative changes in the program which would increase outlays by \$69.6 billion, an increase of 14.1 percent over FY 1984. Savings would be accomplished by 1) a one-year freeze on physician reimbursement levels; 2) starting eligibility on the first month following the 65th birthday of recipients; 3) increasing the deductible paid by the individual by \$3—it is now \$75.

Three Health Block Grants to the states would be increased by a total of \$19 million: Maternal and Child Health (\$407 million), Preventive Health (\$89 million) and Alcohol, Drug Abuse and Mental Health (\$472 million). A Primary Care Block Grant is being proposed to include several existing programs: Community Health Centers, Black Lung, Migrant Health, and Family Planning. Primary Care would receive \$533 million, and states would be required to assume responsibility for administering the program.

8. Other Human Service Programs

Child Support Enforcement efforts would receive less federal reimbursement—65 percent in place of the current 70 percent. The Social Services Block Grant is slated for a slight increase: \$2.7 million for FY 85 as compared to 2.675 million for FY 84. At the same time, however, other programs are being eliminated or drastically reduced in the proposed budget: Emergency Food and Shelter, Legal Services, Work Incentive Program, and Community Services. The Older Americans program would be phased into the general operations of the Department of Health and Human Services with a \$2 million reduction in funding.